Summary

Economic data for the week included declines in retail sales, industrial production, as well as in several regional manufacturing indexes. Jobless claims also ticked higher along with rising virus counts nationally.

Global equity markets rose last week, with continued easy economic policies announced and optimism over the new Covid vaccines. Bonds were down in the U.S. as rates ticked higher, while foreign bonds benefitted positively from a weaker dollar. Commodity prices rose broadly due to expectations for a global demand recovery, especially for energy and metals.

Economic Notes

(-) **Retail sales** fell by -1.1% in November, surpassing the -0.3% decline expected by consensus estimate. On a core/control basis, which excludes energy, food, and building materials, the decline was a less severe -0.5%, but also short of the 0.2% increase expected. While food/beverages, building materials, and online shopping gained in November, department stores, clothing, and a sharp decline in restaurant spending accounted for the decline. The latter was in line with increasing virus case counts and wider restrictions on activity nationally, and perhaps a waning of spending power, while Congress contemplated another stimulus deal.

(+) **Industrial production** decelerated from the prior month, but still rose by 0.4% in November, beating expectations by a tenth of a percent. This was led by more robust results in manufacturing production, which included business equipment and auto manufacturing, while utilities fell back (which is often weather-related). **Capacity utilization** ticked up by 0.3% to 73.3% for the month—this remains on an upward trend from a low of 64% in April following a prior cycle high of 78% in the fall of 2019.

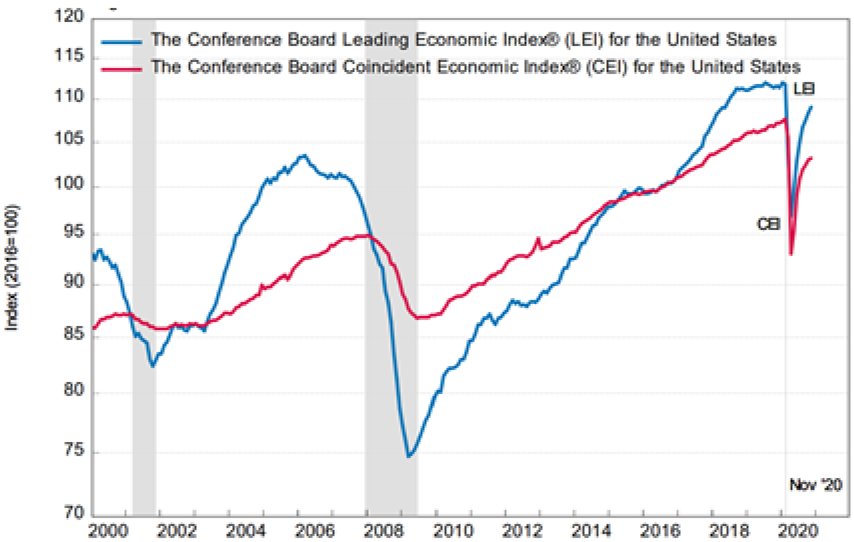
(0) The December **Empire manufacturing index** fell by -1.4 points to 4.9, remaining expansionary but below the expected unchanged reading of 6.3. The subcomponents of shipments and employment both rose to more expansionary levels, as did prices paid, while new orders fell slightly, but remained in expansionary territory. Expected business conditions over the next six months rose by a few points and remain strongly positive.

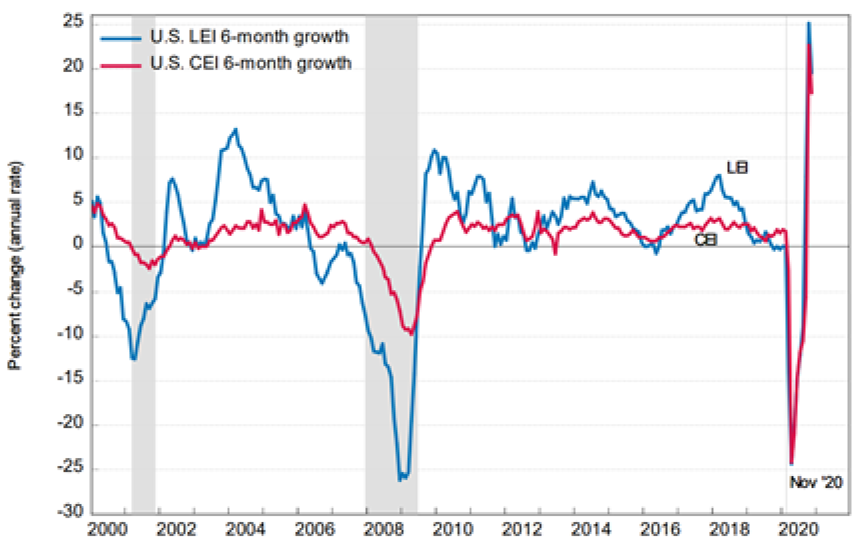
(0) The **Philly Fed manufacturing index** for December fell by -15.2 points to a level of 11.1, below the level of 20.0 expected. Under the hood, shipments, new orders, prices paid, and employment all fell substantially, but remained in expansion. Expected business conditions for the next 6 months fell by -5 points, but remained very strong. Despite the drop, the index remains in positive territory, albeit to a lesser degree.

(+) **Housing starts** for November rose by 1.2% to a seasonally-adjusted rate of 1.547 mil., above the expected 0.3% increase. The more volatile multi-family start component drove the improvement, with a gain of 4%, while single-family ticked up just a few tenths of a percent. Regionally, the Northeast saw a nearly 60% increase for the month, followed by the West up nearly 10%, while the South and West saw modest increases. Overall, single-family starts are up 22% on a year-over-year basis, which is the best result in over 13 years, as well as rising to nearly 15% above the pre-Covid level. **Building permits** rose by 6.2%, surpassing the median forecast of 1.0%, also led by a nearly-20% increase in multi-family. Regional permits were led by a similar pattern of the Northeast and West.

(-) The December **NAHB housing market index** unexpectedly declined by -4 points to 86, below the forecasted 88 level. All three components of current sales, future sales, and prospective buyer traffic declined to the same degree, as did all four regional indexes.

(+) The Conference Board's **Index of Leading Economic Indicators** for November rose by 0.6%, remaining strong, but at a moderated pace of a tenth or two below that of September and October. During the month, the majority of indicators were positive, led by jobless claims, ISM new orders, and building permits. These offset negative results for manufacturing hours and consumer sentiment. The past six months increased at an annualized rate of 19.5%, which was an unsurprising reversal of the prior six months, which fell at an annualized -20.0%. Also in November, the coincident indicator rose by 0.2%, while the lagging indicator fell by -0.4%.





Source: The Conference Board. The shaded areas represent recessions as defined by the NBER.

(0) **Initial jobless claims** for the Dec. 12 ending week rose by 23k to 885k, above the 818k claims expected. **Continuing claims** for the Dec. 5 week fell by -273k to 5.508 mil., which was below the forecasted 5.700 mil. number. The rise in initial claims mirrors the second wave of Covid cases around the country, with claims in IL and CA rising sharply. The primary concern with employment is centered on the expiration of a variety of benefits at year-end, assuming there is no Congressional or state-by-state extensions for affected individuals.

Market Notes

Period ending 12/18/2020	1 Week (%)	YTD (%)
DJIA	0.46	8.19
S&P 500	1.29	16.88
NASDAQ	3.07	43.41
Russell 2000	3.09	19.60
MSCI-EAFE	2.01	6.98
MSCI-EM	0.85	13.79
BBgBarc U.S. Aggregate	-0.08	7.12

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2019	1.55	1.58	1.69	1.92	2.39
12/11/2020	0.08	0.11	0.37	0.90	1.63
12/18/2020	0.08	0.13	0.39	0.95	1.70

U.S. stocks experienced a positive week, as hopes were (again) raised for passage of Congressional Covid relief package before year-end, with apparent commitment on both sides to reach a deal. (It appears that both parties agreed to a deal over this past weekend, to be voted on by both chambers early in the coming week.) The expected amount remains on the order of approximately $900 billion, with two key sticking points for months being Democratic demands for state/local government aid, while Republicans have been asking for business liability protection against Covid claims. An upcoming rebalance of the S&P 500 (with the inclusion of Tesla set to occur operationally) appeared to affect trading a bit. Additionally, Moderna's mRNA Covid vaccine was approved by the FDA for emergency use, providing a second arrow in the vaccine quiver.

By sector, results were mixed to higher with the strongest gains coming from technology and consumer discretionary stocks, followed by materials. On the other hand, energy stocks fell over -4% for the week. Real estate gained slightly, falling in the middle of the pack. Small cap stocks continued their recovery higher, again outpacing large caps.

Foreign stocks performed largely in line with U.S. stocks last week broadly, with Europe the outlier, by outperforming by about a percent. The news from Europe has been somewhat mixed, with infection rates quite high and resulting in elevated lockdown status for many areas. On the positive side, the ECB left monetary policy unchanged the prior week, as the Bank of England did last week—implying that (like the U.S. Fed) conditions would be kept accommodative until progress had been made to reflate growth and inflation.

U.S. bonds were flattish to down for the week, as interest rates ticked up across the board. Investment-grade corporate slightly outperformed treasuries with positive results, through tighter spreads, only surpassed by strong performance by high yield. A weaker dollar, on the order of -1%, buoyed foreign bonds, notably in emerging markets.

Commodities rose across the board, with prices for energy, precious metals, industrial metals, and agriculture all up several percent each. All were helped at least somewhat by a weaker dollar. The price of crude oil rose by nearly 6% to over $49/barrel, with reports of rising emerging market demand.

Have a good week and Happy Holidays.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends, with the exception of MSCI-EM, which is quoted as price return/excluding dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.